

Alcohol and Drug Dependency Services of Southeast Iowa

**Independent Auditor's Reports
Financial Statements and Supplemental Information**

June 30, 2008

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**Alcohol and Drug Dependency Services of Southeast Iowa
Board of Directors
June 30, 2008**

	<u>Title</u>	<u>Term Expires</u>
Robert Ritson	President	October, 2008
Mary Margaret Wagner	Vice President	October, 2009
Jeff Heland	Secretary	October, 2009
Joe Skelley	Treasurer	October, 2009
Nina Allison	Director	October, 2009
Steve Bohlen	Director	October, 2010
Michael Clark	Director	October, 2010
Brian DePriest	Director	October, 2009
Ben Diewold	Director	October, 2010
John Korb	Director	October, 2010
Russ Kuhlemeier	Director	October, 2008
Julie Solinski	Director	October, 2010
Richard Swanson	Executive Director	Indefinite



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Independent Auditor's Report

Board of Directors
Alcohol and Drug Dependency Services of Southeast Iowa
Burlington, Iowa

We have audited the accompanying financial statements, listed in the table of contents of this report, of Alcohol and Drug Dependency Services of Southeast Iowa (a nonprofit corporation) as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alcohol and Drug Dependency Services of Southeast Iowa, as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2008, on our consideration of Alcohol and Drug Dependency Services of Southeast Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and of compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

CPA Associates PC

October 29, 2008

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Financial Position
June 30, 2008

Assets

Cash	\$ 327,911
Accounts receivable	
Grants and allocations	112,721
Client fees and other services, net of allowance of \$11,340	51,388
Prepaid expenses	10,939
Certificates of deposit	509,446
Property and equipment	
Building	1,617,931
Furniture and fixtures	25,525
Equipment	236,123
Accumulated depreciation	<u>(1,122,538)</u>
	<u><u>\$ 1,769,446</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	\$ 13,708
Accrued salaries and paid time off	<u>71,570</u>
	<u>85,278</u>
Net assets	
Unrestricted:	
Board designated	203,379
Undesignated	<u>1,480,789</u>
	<u>1,684,168</u>
	<u><u>\$ 1,769,446</u></u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Activities
Year Ended June 30, 2008

Public Support and Revenue

Public support	
Iowa Department of Public Health:	
Treatment program	\$ 805,835
Prevention program	110,348
Gambling treatment program	175,913
Other grants	31,020
County allocations	62,788
City allocations	2,323
United Way	<u>31,429</u>
	<u>1,219,656</u>
Revenue	
Resident recovery program fees	89,755
Client fees	220,463
Other services	115,715
Interest income	24,759
Miscellaneous	<u>17,005</u>
	<u>467,697</u>
Total public support and revenue	<u>1,687,353</u>

Expenses

Program services	1,214,658
Supporting services	<u>355,865</u>
Total expenses	<u>1,570,523</u>
Change in net assets	116,830
Net assets, beginning of year	<u>1,567,338</u>
Net assets, end of year	<u>\$ 1,684,168</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Functional Expenses
Year Ended June 30, 2008

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries	\$ 654,346	\$ 232,556	\$ 886,902
Benefits and taxes	<u>154,580</u>	<u>56,913</u>	<u>211,493</u>
Total salaries and related expenses	808,926	289,469	1,098,395
Travel	45,226	12,009	57,235
Education and training	22,215	11,268	33,483
Contract services	38,590	1,457	40,047
Insurance	34,461	3,890	38,351
Occupancy	58,560	5,000	63,560
Supplies	100,024	3,485	103,509
Telephone	17,317	2,031	19,348
Equipment maintenance	16,919	1,780	18,699
Other expenses	<u>18,857</u>	<u>1,873</u>	<u>20,730</u>
Total expenses before depreciation	1,161,095	332,262	1,493,357
Depreciation	<u>53,563</u>	<u>23,603</u>	<u>77,166</u>
Total functional expenses	<u>\$ 1,214,658</u>	<u>\$ 355,865</u>	<u>\$ 1,570,523</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Cash Flows
Year Ended June 30, 2008

Cash Flows From Operating Activities

Change in net assets	\$ 116,830
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	77,166
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(53,920)
Other assets	815
Decrease in:	
Accounts payable and accrued expenses	<u>(7,319)</u>
Net cash provided by operating activities	<u>133,572</u>

Cash Flows From Investing Activities

Purchase of certificates of deposit	(318,377)
Capital expenditures	<u>(74,305)</u>
Net cash used by investing activities	<u>(392,682)</u>

Net decrease in cash (259,110)

Cash, beginning of year 587,021

Cash, end of year \$ 327,911

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 1. Reporting Entity

Alcohol and Drug Dependency Services of Southeast Iowa (Organization) is a nonprofit corporation organized to provide education and group counseling for substance abusers and their families, in addition to providing residential care for adult substance abusers and treatment for gambling addiction. Services are provided primarily to residents of southeast Iowa.

Note 2. Summary of Significant Accounting Policies

The Organization's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board for nonprofit corporations.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as restricted or unrestricted net assets. Unrestricted net assets are not subject to donor-imposed stipulations. There were no restricted assets at June 30, 2008.

Public support and revenue are reported as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Accounts Receivable

Accounts receivable are for grants, allocations and services performed and are uncollateralized. Collection of accounts receivable, net of the allowance for doubtful accounts, is expected to occur within one year. The allowance for doubtful accounts is estimated based on current and prior experience with the outstanding accounts. Accounts are written off when management believes the account is uncollectible. Charged-off accounts are netted against the related revenues and totaled \$20,389 for the year ended June 30, 2008.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is stated at cost. Expenditures in excess of \$1,000 for property and equipment that provide future benefit are capitalized. Depreciation is computed by the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	10-32
Furniture and fixtures	7
Equipment	5-7

Property and equipment acquired with government funds must be offered back to the related agency prior to any disposition.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Certificates of Deposit

The Organization has certificates of deposit totaling \$509,446. The certificates bear interest ranging from 2.25% to 5.10%, have maturity dates ranging from September 13, 2008 to May 2, 2011, and are subject to penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 4. Grants and Allocations

During the year ended June 30, 2008, the Organization was informed that it would receive \$92,078 for the Treatment program, for services performed in prior years, as part of the allocation from the Iowa Department of Public Health. A third party contracts with the Iowa Department of Public Health to provide a minimum number of units of service state wide. The Organization exceeded its minimum for the year ended June 30, 2007 and was not paid for the excess units served. It was determined by the third party that the excess funds received from the Iowa Department of Public Health should have been reallocated to the Organization providing the excess units of service. The funds were remitted during the year ended June 30, 2009. Accounting standards generally accepted in the United States of America require the funds to be reported in the current year rather than as a prior period adjustment. Accordingly, the Organization has recorded a receivable of \$92,078 as of June 30, 2008 in the Statement of Financial Position. Any amounts the Organization may receive for services performed during the year ended June 30, 2008 cannot be determined.

Note 5. Leased Equipment and Facilities

The Organization leases office space in Fort Madison, Iowa and Ottumwa, Iowa under operating leases. The leases require monthly rental payments totaling \$933 and may be cancelled with 30 days notice. The Ottumwa office lease includes the use of support staff, furnishings, and internet and phone access. Rent expense under these leases was \$12,396 for the year ended June 30, 2008.

The Organization leases office equipment under an operating lease expiring in November 2009, with minimum payments of \$566 per month. Total office equipment rental expense under this agreement was \$6,792 for the year ended June 30, 2008. Future minimum lease payments are as follows:

Year ended June 30, 2009	\$ 6,792
Year ended June 30, 2010	<u>2,264</u>
	<u>\$ 9,056</u>

Note 6. Pension Plan

The Organization has a pension plan covering full-time employees who are at least 21 years of age and have completed at least one year of service. The plan states that the Organization will contribute an amount equal to two percent of each eligible employee's gross salary. In addition, if the employee elects to make a two percent contribution, the Organization will match it, making the Organization's maximum contribution four percent. Total pension expense for the year was \$30,506.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 7. Board-Designated Net Assets

The Board of Directors has designated net assets for future expenditures. The net assets remain unrestricted and can be used for other purposes with the approval of the Board. The current designated balances are as follows:

Staff	\$ 37,717
Capital expenditures	88,051
Depreciation sinking fund	<u>77,611</u>
	<u>\$ 203,379</u>

Note 8. Concentration of Revenues and Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of deposits held in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. Deposits are insured by the FDIC up to \$100,000. At June 30, 2008, the Organization had deposit balances in excess of FDIC-insured limits.

The Organization receives the majority of its funding through various state and federal grants. If these funding sources were removed, the Organization could have difficulty meeting its functional obligations.

Note 9. Self-Insured Unemployment Benefits

The Organization elected to self-fund unemployment benefits through participation in an unemployment savings program. The Organization has set up a reserve account that will be used to reimburse the State of Iowa for actual claims paid to former employees. The program includes excess loss insurance up to \$160,000 with a stop loss limit of \$40,000. The balance in the reserve account was \$5,013 as of June 30, 2008. No unemployment claims were paid during the year ended June 30, 2008.

Note 10. Allocation of Expenses - Statement of Functional Expenses

The allocation of expenses on the Statement of Functional Expenses is based on actual amounts when identifiable with a particular program, or allocated based on estimates furnished by management of the Organization.

Note 11. Risk Management

Alcohol and Drug Dependency Services of Southeast Iowa is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the Organization's commercial insurance. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Alcohol and Drug Dependency Services of Southeast Iowa
Detail of Functional Expenses - Program Services
Year Ended June 30, 2008

	<u>Treatment</u>	<u>Prevention</u>	<u>Gambling</u>	<u>Total</u>
Salaries	\$ 423,351	\$ 133,232	\$ 97,763	\$ 654,346
Benefits and taxes	<u>100,225</u>	<u>31,457</u>	<u>22,898</u>	<u>154,580</u>
Total salaries and related expenses	523,576	164,689	120,661	808,926
Travel	21,203	10,915	13,108	45,226
Education and training	14,445	3,299	4,471	22,215
Contract services	23,340	13,132	2,118	38,590
Insurance	23,958	5,057	5,446	34,461
Occupancy	36,374	7,331	14,855	58,560
Supplies	74,631	10,377	15,016	100,024
Telephone	12,248	2,211	2,858	17,317
Equipment maintenance	11,346	3,795	1,778	16,919
Other expenses	<u>15,162</u>	<u>1,468</u>	<u>2,227</u>	<u>18,857</u>
Total expenses before depreciation	756,283	222,274	182,538	1,161,095
Depreciation	<u>40,401</u>	<u>12,982</u>	<u>180</u>	<u>53,563</u>
Total functional expenses	<u>\$ 796,684</u>	<u>\$ 235,256</u>	<u>\$ 182,718</u>	<u>\$ 1,214,658</u>



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Board of Directors
Alcohol and Drug Dependency Services of Southeast Iowa
Burlington, Iowa

We have audited the financial statements of Alcohol and Drug Dependency Services of Southeast Iowa (Organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we considered to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control. We believe the following deficiencies constitute material weaknesses:

The Organization does not have adequate internal accounting control because of an inadequate segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. Due to the size of your Organization, not all duties related to billing, cash receipts, cash disbursements and account reconciliation are adequately segregated.

The Organization's system of accounting for billing accounts receivable is decentralized, with each location or department controlling its own billing, cash collection and accounts receivable. Accounts receivable balances, billings and collections are not reconciled.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to the Board of Directors of Alcohol and Drug Dependency Services of Southeast Iowa in a separate letter dated October 29, 2008.

This report is intended solely for the information and use of management and the Board of Directors of Alcohol and Drug Dependency Services of Southeast Iowa and other parties to whom the Organization may report. This report is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC

October 29, 2008